



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
KENTON COUNTY CLERK**

Calendar Year 2000

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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
KENTON COUNTY CLERK

Calendar Year 2000

The Auditor of Public Accounts has completed the Kenton County Clerk's audit for calendar year 2000. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Fee account balances decreased by \$82,905 from the prior calendar year, resulting in a cash surplus of \$2,184 as of December 31, 2000. Revenues increased by \$331,263 from the prior year and disbursements increased by \$414,168.

Report Comments:

- County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Lacks Adequate Segregation of Duties

Deposits:

On April 6, 2000, \$236,294 of the County Clerk's deposits of public funds in depository institutions were uninsured and unsecured.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Richard L. Murgatroyd, County Judge/Executive

Honorable William Aylor, Kenton County Clerk

Members of the Kenton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts and disbursements of the County Clerk of Kenton County, Kentucky, and the statement of receipts, disbursements, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2000. These financial statements are the responsibility of the County Clerk. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk prepares the financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the accompanying financial statements referred to above present fairly, in all material respects, the receipts and disbursements of the County Clerk and the receipts, disbursements, and fund balances of the County Clerk's operating fund and county fund with the State Treasurer for the year ended December 31, 2000, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Richard L. Murgatroyd, County Judge/Executive
Honorable William Aylor, Kenton County Clerk
Members of the Kenton County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated January 18, 2002, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented comments and recommendations, included herein, which discuss the following areas of noncompliance:

- County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- Lacks Adequate Segregation of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
January 18, 2002

KENTON COUNTY
WILLIAM AYLER, COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS

Calendar Year 2000

Receipts

State Grants- Library and Archives (Note 4) \$ 13,041

State Fees For Services 47,523

Fiscal Court 31,192

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers \$ 2,462,061

Usage Tax 11,807,422

Tangible Personal Property Tax 9,886,893

Delinquent Lien Releases 18,656

Licenses-

Marriage 51,592

Occupational 7,780

City Stickers 159,850

Deed Transfer Tax 481,035

Delinquent Taxes 677,571 25,552,860

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts \$ 70,446

Real Estate Mortgages 228,073

Chattel Mortgages and Financing Statements 250,954

Powers of Attorney 4,417

All Other Recordings 178,712

Charges for Other Services-

Candidate Filing Fees 7,840

Copywork 25,848

Miscellaneous 3,069 769,359

Other:

Postage \$ 78,349

Delinquent Tax Redemptions for the State 78,312 156,661

Interest Earned 36,132

Total Receipts \$ 26,606,768

KENTON COUNTY
WILLIAM AYLOR, COUNTY CLERK
STATEMENT OF RECEIPTS AND DISBURSEMENTS
Calendar Year 2000
(Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 1,824,108

Usage Tax 11,429,376

Tangible Personal Property Tax 3,296,971

Licenses, Taxes, and Fees-

Delinquent Tax 78,417

Legal Process Tax 117,248

Candidate Filing Fees 4,140 \$ 16,750,260

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 1,005,119

Delinquent Tax 62,899

Deed Transfer Tax 456,982

Occupational Licenses 6,379 1,531,379

Payments to Other Districts:

Tangible Personal Property Tax \$ 5,207,490

Delinquent Tax 362,517 5,570,007

Payments to Sheriff

11,120

Payments to County Attorney

108,191

Refunds 34,371

Delinquent Tax Redemptions

To The State 78,312

City Stickers 142,959 255,642

Total Disbursements \$ 24,226,599

Net Receipts \$ 2,380,169

Payments to State Treasurer:

75% Operating Fund \$ 1,827,539 *

25% County Fund 552,630 2,380,169

Balance Due at Completion of Audit \$ 0

* Includes reimbursed expenses of \$169,648. See Note 1B

The accompanying notes are an integral part of the financial statements

KENTON COUNTY
 WILLIAM AYLROR, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 FUND BALANCES OF THE COUNTY CLERK'S OPERATING
FUND AND COUNTY FUND WITH THE STATE TREASURER

Calendar Year 2000

	75% Operating Fund	25% County Fund	Totals
	<u> </u>	<u> </u>	<u> </u>
Fund Balance - January 1, 2000	\$ 85,089	\$	\$ 85,089
 <u>Receipts</u>			
Fees Paid to State - Operating Funds (75%)	1,827,539		1,827,539
Fees Paid to State - County Funds (25%)		552,630	552,630
	<u> </u>	<u> </u>	<u> </u>
Total Funds Available	\$ 1,912,628	\$ 552,630	\$ 2,465,258
	<u> </u>	<u> </u>	<u> </u>
 <u>Disbursements</u>			
Kenton County Fiscal Court	\$	\$ 552,630	\$ 552,630
Personnel Services-			
County Clerk's Salary	80,487		80,487
County Clerk's Expense	3,600		3,600
Deputies' Salaries	1,132,046		1,132,046
Overtime Gross	1,778		1,778
Employee Benefits-			
Employer's Share Social Security	88,454		88,454
Employer's Share Retirement	84,632		84,632
Employer's Paid Health Insurance	260,089		260,089
Contracted Services-			
Advertising	251		251
Microfilming	14,809		14,809
Parking	12,705		12,705
Materials and Supplies-			
Delivery Services	5,548		5,548
Office Supplies	30,753		30,753
Telephone	28,558		28,558
Equipment Rental	964		964
Maintenance	12,822		12,822
Forms	1,640		1,640

KENTON COUNTY
WILLIAM AYLOR, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND
BALANCES OF THE COUNTY CLERK'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER
Calendar Year 2000
(Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Disbursements (Continued)</u>			
Other Charges-			
Conventions and Travel	\$ 670	\$	\$ 670
Conferences and Meetings	1,004		1,004
Dues	3,550		3,550
Postage	25,694		25,694
Post Office Box and Rental	368		368
Unemployment Insurance	734		734
Maps	288		288
Computer Services and Equipment	75,000		75,000
Capital Outlay-			
Office Equipment	44,000		44,000
Total Disbursements	<u>\$ 1,910,444</u>	<u>\$ 552,630</u>	<u>\$ 2,463,074</u>
Fund Balance - December 31, 2000	<u>\$ 2,184</u>	<u>\$ 0</u>	<u>\$ 2,184</u>

The accompanying notes are an integral part of the financial statements

KENTON COUNTY
WILLIAM AYLLOR, COUNTY CLERK
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Clerk's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and periodically paid to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2000.

The Attorney General issued a letter which stated that some receipts of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are receipted in the 75 percent fund.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

KENTON COUNTY
 WILLIAM AYLLOR, COUNTY CLERK
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2000
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The County Clerk entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of April 6, 2000, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$236,294 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of April 6, 2000.

	<u>Bank Balance</u>
Insured and collateralized with securities held by pledging depository institution in the county official's name	\$ 1,500,000
Uncollateralized and uninsured	<u>236,294</u>
Total	<u><u>\$ 1,736,294</u></u>

KENTON COUNTY
WILLIAM AYLLOR, COUNTY CLERK
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2000
(Continued)

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$26,082. Funds totaling \$13,041 were received during calendar year 2000. Since this grant was for salaries paid for indexing, 100% of it was turned over to the 75% account to be distributed along with the regular payroll. Funds totaling \$7,494 were expended during calendar year 2000. The unexpended grant balance is \$5,547 as of December 31, 2000.

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COMMENTS AND RECOMMENDATIONS

KENTON COUNTY
WILLIAM AYLLOR, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

Calendar Year 2000

STATE LAWS AND REGULATIONS:

1. County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On April 6, 2000, \$236,294 of the County Clerk's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County Clerk require the depository institution to pledge or provide collateral in an amount to secure deposits of public funds at all times.

County Clerk's Response:

Financial Institution has put in place a new procedure that will assure pledges will be adequate.

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESS:

2. Lacks Adequate Segregation of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgement is a reportable condition and a material weakness under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations and budget restrictions, the official has limited options for establishing an adequate segregation of duties. During the audit, it was noted that the bookkeeper both deposits cash for the lien department and reconciles the lien department accounts. We recommend that the County Clerk separate the cash safekeeping function from the cash reconciling function.

County Clerk's Response:

Management concurs.

PRIOR YEAR:

County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

This has not been corrected and is repeated in the current year.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the Kenton County Clerk for the year ended December 31, 2000, and have issued our report thereon dated January 18, 2002. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Kenton County Clerk's financial statements for the year ended December 31, 2000, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- County Clerk Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kenton County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- Lacks Adequate Segregation of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the following reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
January 18, 2002

